FDIC State Profile

Fall 2005

Washington

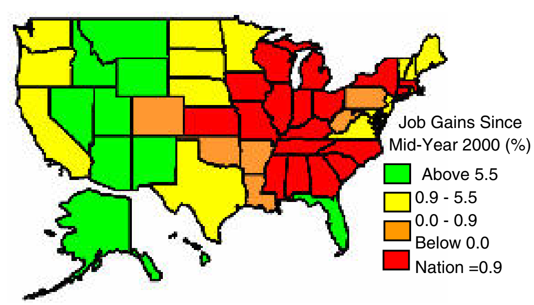
Washington job growth strengthened, and the outlook remains positive.

- Washington lost nearly 60,000 jobs (primarily in the manufacturing and business services sectors) during and after the 2001 recession. However, by mid-2003 growth had resumed, and by early 2005 the state surpassed its pre-recession job peak (see Map 1).
- Several sectors have contributed to the recovery, but the government and health services sectors added the most jobs. Recently, the construction, retail trade, and professional and business services sectors reported gains.
- Although annual employment growth moderated between the first and second quarters of 2005, Washington still ranked 13th nationwide.
- Forecasts indicate that Washington job growth will remain strong in 2005 and 2006. Funding for construction projects, trade activity at the Port of Seattle, and higher Boeing sales and orders all bode well for the state.
- Recent hurricanes likely will have indirect implications for the Washington economy. Post hurricane reconstruction in the Southeast may create labor and construction supply pressures. Moreover, energy price increases may have some adverse effects on consumer demand, including travel and tourism.

Commercial real estate (CRE) conditions improved.

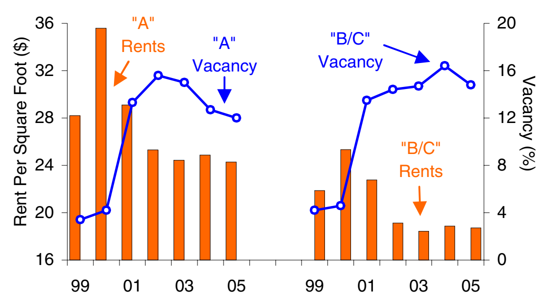
- **Seattle** office and industrial vacancies improved through June 2005: strong absorption pushed industrial rents to a record high, but office rents languished.[1] In Seattle, rents in both class "A" and "B/C" office buildings declined despite vacancy drops in both sectors (see Chart 1).[2]
- At second quarter 2005, insured institutions based in Washington ranked seventh in the nation for CRE loan to Tier 1 capital concentrations; at the metro level, Seattle and **Spokane** ranked 35th and 36th, respectively.

Map 1: Washington Recently Recovered to Its Pre-Recession Employment Level



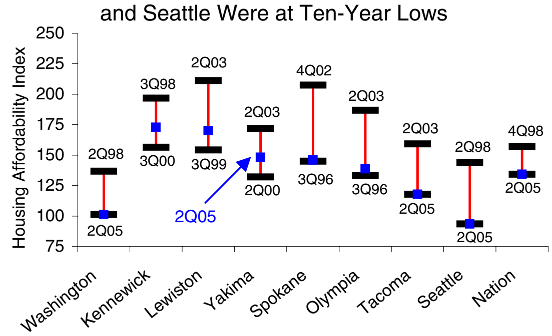
Source: Bureau of Labor Statistics (data as of second quarter 2005)

Chart 1: Seattle "B/C" Office Vacancy and Rent Recoveries Lagged Behind "A" Properties



Note: Data for 2005 as of June; prior periods as of December.
Sources: FDIC, Torto Wheaton Research

Chart 2: Washington Affordability as well as Tacoma and Seattle Were at Ten-Year Lows



Note: Higher index scores reflect greater affordability. Chart covers 2Q 1995 to 2Q 2005.
Sources: FDIC, Economy.com, National Association of Realtors

[1] According to Torto Wheaton Research.
[2] Class "A" properties are generally newer with better quality construction and location.

House price gains and investor activity were high.

- Second quarter home prices jumped more than 15 percent on an annual basis in Washington, slightly above the nation.[3] Housing affordability in Seattle and **Tacoma** reached 10-year lows and remained below the national average (see Chart 2).[4]
- In first half 2005, residential mortgage activity in the state was characterized by active levels of investor participation and use of innovative mortgage products, even among non-prime borrowers. For example, nearly 22 percent of Alt-A (low documentation) Washington mortgages were to investors compared with 18 percent for the nation.[5] Innovative (option ARM and interest only) mortgages accounted for over half of subprime and Alt-A mortgages in Seattle compared with 44 percent for the nation.[6]

Bankruptcy filings are on the radar.

- Second quarter personal bankruptcy filings in Washington were relatively flat year-over-year despite pending bankruptcy law changes. However, filings remained slightly higher than the nation on a per capita basis and above pre-recession levels (see Chart 3).
- Consumer loan delinquencies at Washington institutions were at historical lows. However, should interest rates rise or energy prices remain elevated, institutions could experience an uptick in consumer loan delinquencies.

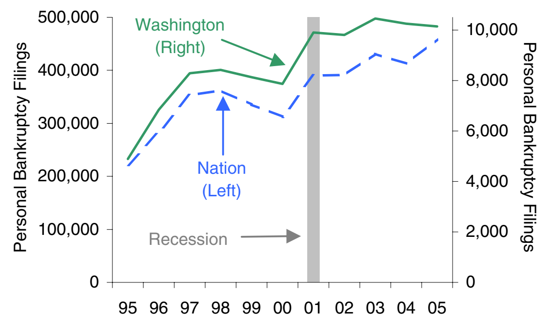
Insured institution earnings improved, but performance varied across the state.

- Widening margins and lower overhead ratios benefited pre-tax earnings and efficiency ratios among most Washington-based institutions (see Chart 4).[7]
- However, margins among Seattle-area institutions compressed because increases in funding costs outpaced asset yields.[8] Still, lower overhead and provision expenses enabled most Seattle-area institutions to boost second quarter pre-tax earnings from year-ago levels.
- Although improving, the median efficiency ratio (the share of net operating revenues absorbed by overhead expenses) slightly exceeded the national average.

Washington institutions reported strong credit quality.

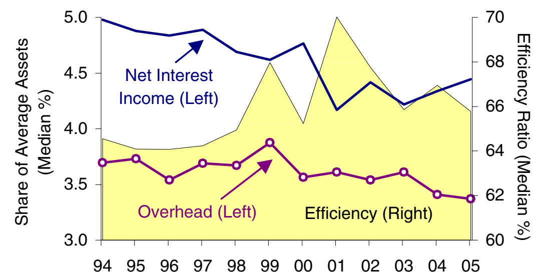
- Despite an increase in past-due commercial and industrial loans, Washington institutions continued to report one of the lowest past-due total loan levels in the nation.
- Loan growth among Washington institutions ranked seventh nationwide, led by construction and development mortgages and home equity lines.
- Despite robust loan growth, loan loss reserves relative to total loans far exceeded national levels (see Chart 5).

Chart 3: Washington Personal Bankruptcy Filings Decreased Slightly in Second Quarter 2005



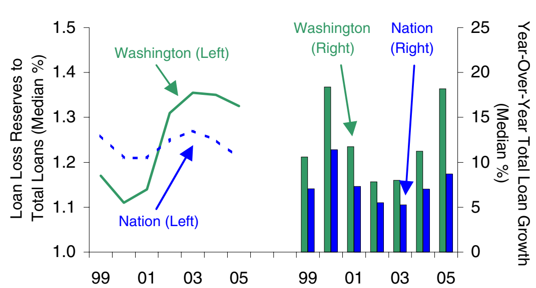
Source: Administrative Office of the United States Courts (second quarter of each year)

Chart 4: Stronger Net Interest Income and Lower Overhead Helped Washington Efficiency Ratios



Note: All figures are second quarter, annualized rates. Efficiency ratio equals noninterest expense divided by the sum of net interest income and fee income (a lower ratio is preferred).
Source: FDIC

Chart 5: Washington Institutions Reported High Reserve Levels Despite Rapid Loan Growth



Note: Data excludes insured institutions less than 3 years old.
Source: FDIC (June 30 of each year)

[3] According to Office of Federal Housing Enterprise Oversight data.
[4] According to Economy.com and National Association of Realtors.
[5] Based on LoanPerformance data.
[6] Ibid.
[7] The efficiency ratio equals noninterest expense (overhead) divided by the sum of net interest income and noninterest income.
[8] The Seattle area includes the Seattle-Tacoma-Olympia Combined Statistical Area.

Washington at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.1%	2.3%	1.7%	1.5%	0.1%
Manufacturing (10%)	1.6%	1.7%	-1.8%	-1.3%	-6.3%
Other (non-manufacturing) Goods-Producing (6%)	5.0%	4.5%	5.4%	4.5%	0.8%
Private Service-Producing (65%)	2.3%	2.6%	2.4%	2.0%	0.9%
Government (19%)	0.6%	0.7%	0.4%	0.5%	0.9%
Unemployment Rate (% of labor force)	5.5	5.4	6.2	6.2	7.4

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.8%	6.7%	18.2%	7.9%	2.0%
Single-Family Home Permits	0.8%	20.6%	13.5%	7.9%	4.4%
Multifamily Building Permits	16.3%	17.7%	-11.1%	29.6%	-3.9%
Existing Home Sales	19.8%	13.9%	1.6%	11.6%	13.8%
Home Price Index	15.8%	13.2%	8.4%	9.5%	4.4%
Bankruptcy Filings per 1000 people (quarterly annualized level)	6.59	6.24	6.73	6.25	6.38

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	100	97	98	98	100
Total Assets (in millions)	54,889	53,065	78,589	78,503	78,396
New Institutions (# < 3 years)	8	7	7	8	6
Subchapter S Institutions	7	7	7	7	5

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.72	0.76	0.77	0.62	0.92
ALLL/Total Loans (median %)	1.32	1.32	1.35	1.28	1.37
ALLL/Noncurrent Loans (median multiple)	2.84	3.09	2.13	2.75	1.91
Net Loan Losses / Total Loans (median %)	0.01	0.01	0.02	0.11	0.12

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	10.24	10.05	10.02	9.93	9.67
Return on Assets (median %)	1.16	1.02	1.04	1.05	1.06
Pretax Return on Assets (median %)	1.65	1.46	1.47	1.53	1.46
Net Interest Margin (median %)	4.86	4.78	4.64	4.68	4.59
Yield on Earning Assets (median %)	6.78	6.45	6.12	6.19	6.31
Cost of Funding Earning Assets (median %)	1.92	1.75	1.47	1.49	1.72
Provisions to Avg. Assets (median %)	0.19	0.17	0.17	0.23	0.24
Noninterest Income to Avg. Assets (median %)	0.59	0.56	0.61	0.62	0.65
Overhead to Avg. Assets (median %)	3.37	3.50	3.41	3.56	3.52

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	76.3	76.4	76.0	76.0	72.8
Noncore Funding to Assets (median %)	24.2	23.1	21.8	23.0	21.6
Long-term Assets to Assets (median %, call filers)	10.2	12.2	14.8	10.8	14.9
Brokered Deposits (number of institutions)	45	43	39	44	34
Brokered Deposits to Assets (median % for those above)	3.6	3.5	2.8	3.1	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	117.4	117.4	105.7	111.8	116.3
Commercial Real Estate	383.6	402.2	347.7	371.2	357.1
Construction & Development	97.2	93.4	65.9	79.8	68.5
Multifamily Residential Real Estate	22.4	24.0	21.7	25.3	23.5
Nonresidential Real Estate	231.3	244.7	227.1	239.5	232.8
Residential Real Estate	95.4	91.4	116.2	103.7	107.0
Consumer	22.3	22.4	22.7	23.3	23.9
Agriculture	5.1	3.0	2.1	2.9	2.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Seattle-Tacoma-Bellevue, WA	71	56,990	< $250 million	58 (58%)
Spokane, WA	16	4,806	$250 million to $1 billion	30 (30%)
Bellingham, WA	14	2,342	$1 billion to $10 billion	12 (12%)
Olympia, WA	18	2,060	> $10 billion	0 (0%)
Yakima, WA	12	2,016		